Excerpt from Governor McDonnell's budget remarks December 19, 2011

Remarks of the Honorable Robert F. McDonnell
Governor of the Commonwealth of Virginia
To the Joint Meeting of the Senate Finance, House Appropriations
and House Finance Committees
Richmond
December 19, 2011

FOR PUBLIC RELEASE

Following is an excerpt from pages 8 – 10 of the Governor's budget remarks.

VRS Funding

There is a critical need to fully fund VRS. As of the June 30, 2011 valuation, the funding status of the retirement system was 70.6 percent for state employees and 66.6 percent for teachers. According to JLARC's review of state and local retirement benefits released last week, VRS projections are that funded ratios for State employees' and teachers' plans could reach lows of 63 percent and 61 percent, respectively, in 2013. Also according to JLARC's review, in the past two years from 2009 to 2011 the gap between the VRS liabilities and assets on hand to pay such liabilities increased 69% from $11.8 billion to $19.9 billion. This is unacceptable!

Here's the simple truth: our state retirement system is underfunded, and this situation threatens the system's long term solvency. Our responsibility is clear. We must fund VRS at substantially higher levels so that we can guarantee all benefits will be there for our hardworking teachers, police officers, and other state and local employees. To help reverse this trend, our budget will propose the largest employer contribution to the Virginia Retirement System in history, recommending a total of $2.21 billion in total funding to the systems for state employees and teachers.

This much needed increase more than doubles the employer contributions from FY2011/2012. We will fully fund the regular contribution rates assuming an 8.0 percent rate of return, 2.5 percent inflation, and 30-year amortization. And we will pay back, in full, deferred contributions to VRS for FY2013 and FY2014. Specifically, VRS will receive payback of deferred contributions of $67.1 million for state employees and $197.4 million for teachers during this upcoming biennium. This is part of the planned 10-year payback of the previously deferred contributions.

Now, I do want to address some of the unfortunate, unfounded partisan criticism I have heard about the state putting the most new funding into VRS in history.

Much of this criticism seems to rely on a hope that everyone will forget how public education is structured in Virginia. Here are the facts. Public education in Virginia is carried out by 136 separate local school divisions under the authority of appointed or elected school boards. Public school teachers are employees of the local school divisions.

In order to provide for consistency there is a statewide retirement plan for public school teachers, which covers all local school divisions and public school teachers. The Virginia Retirement 10 System sets the contribution rates for the teacher retirement system so that it is adequately funded. The responsibility for paying this cost rests with the local school division. They are not state employees. They are local employees.

To assist local school divisions with the cost of teacher retirement, the state makes a contribution though the standards of quality formula to the local school divisions. Therefore, historically this has been a shared cost. When costs go up it affects both state and local contributions. Our historic new contribution to VRS therefore puts no mandate on local government. They will only pay for their fair share of retirement for teachers, who, again, are local employees. The retirement costs for teachers are a local obligation. Through our new funding, the state is helping localities with their requirement to the greatest extent in history.

This significant new funding for VRS is a major step towards reducing the system’s liability and increasing the fund’s long-term security and stability. We must act now and during the session we must pass other pension system reforms to permanently fix this system.